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TO RUEHC/SECSTATE WASHDC PRIORITY 0698
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INFO RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY
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RUCNIRA/IRAN COLLECTIVE PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 BERLIN 000333

SIPDIS

SIPDIS, P, T, E, ISN, EUR, NEA/IR, EEB
NSC PLEASE PASS TO JAMES JEFFREY AND EMILY HARDING
TREASURY FOR LUKAS KOHLER AND TFI - COLLEEN EDDY

E.O. 12958: DECL: 03/13/2018
TAGS: [EFIN](#) [ETRD](#) [EPET](#) [ETTC](#) [KNNP](#) [PREL](#) [IR](#) [GM](#)
SUBJECT: GERMANY/IRAN - EXPORTERS AND BANKS "DOING THEIR
PART" BUT WANT PRECISE GUIDANCE

REF: A. 07 BERLIN 2007
[1](#)B. BERLIN 211

Classified By: EMIN Robert A. Pollard for reasons 1.4 (b)
and (d).

[1](#)1. (C) SUMMARY: German exporters and banks have responded to Government pressure to curtail Iran-related business by exercising extreme vigilance on new contracts, stepping up due diligence, and requesting licensing-related guidance from Government regulators at record levels. German firms' actions are largely motivated by a desire to avoid damage to their reputations or loss of market access, not because they are convinced that Iran's enrichment and missile programs pose an imminent national security threat. German business continues to complain about ambiguities in UN, EU and U.S. sanctions and about business opportunities permanently lost to competitors in China, Russia, India and the Gulf. German export control officials and banking regulators express concern that small- and medium-size exporters perceive sanctions, as well as the Government's moral suasion efforts, as arbitrary, politically motivated measures aimed at regime change, rather than as tools to prevent proliferation. Industry associations regard each new round of sanctions as another step toward a trade embargo. END SUMMARY.

GOVERNMENT PREDICTS FURTHER DECLINE IN EXPORTS TO IRAN

[1](#)2. (C) German exports to Iran declined to 3.6 billion euros in 2007, a 13 percent decrease from 2006, but still far short of the steep decline (up to 30 percent) industry and government officials had projected in late 2007 (ref A). Economics Ministry officials subsequently explained that the 2007 numbers mainly reflected deliveries on contracts signed in 2006, before UNSCRs 1737/1747. German officials expect a dramatic drop in exports to occur in 2008, when UN sanctions (including UNSCR 1803) and German cuts in export credit guarantees (Hermes) begin to bite.

[1](#)3. (C) A February query by Liberal Party (FDP) parliamentarians to the Economics Ministry reflects deep-seated concerns in some quarters about the sanctions' impact on German businesses. The FDP inquiry calls into question the effectiveness of sanctions, focusing on alleged attempts by exporters in other countries -- including the U.S. -- to circumvent them. In its response, the Ministry revealed that the Hermes export credit agency had cut guarantees for Iran-related exports by more than half from nearly 1.6 billion euros in 2006 to 503 million euros in [1](#)2007. Similarly, the German government reduced its total outstanding liabilities for Iran-related guarantees from 5.6 to 5.2 billion euros Q 2007.

14. (C) German export control officials and banking regulators also report that exporters and banks have stepped up their vigilance with respect to Iran-related business. Indeed, German Federal Office of Economics and Export Controls (BAFA) officials claim the 60 percent increase in inquiries from exporters and banks over the past four years is almost entirely Iran-related. Nearly one quarter of the 32,000 investigations BAFA undertook in 2007 involved inquiries from financial institutions and export credit-related investigations, or exporters' requests for zero-notices (a BAFA-prepared certification indicating that goods or technology proposed for export are not UN-, EU-, or regime-listed items, not subject to catch-all controls, not destined for a questionable end-user, and not in significant danger of being misused). It generally takes BAFA several months to prepare a zero-notice. German firms claim the delays have prompted Iranian customers to cancel contracts and shift their business to Russian, Chinese, South Korean, and Japanese companies.

15. (C) According to officials at the German Chamber of Commerce (DIHK), as German banks withdraw from Iran, German firms have been reluctant to switch to other financial institutions, most of which they do not trust. Federal Financial Supervisory Authority (BaFin) banking supervisors share this assessment and note decreasing German exports and German banks' withdrawals from Iran have led to a decline in the total assets of Iranian banks in Germany. Since the passage of UNSCR 1747, BaFin has imposed additional reporting requirements and scheduled additional supervisory meetings with Iranian banks operating in Germany to ensure they are not interfering with UN and EU sanctions. According to BaFin, even more banks are stopping business with Iran as the result of UNSCR 1803.

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EXPORTERS SEEK PRECISE GUIDANCE ...

16. (C) According to BAFA officials, small and medium-sized exporters continue to complain about "ambiguities" in UN, EU, and U.S. sanctions on Iran, primarily because they are concerned about damage to their reputations and the risks of running afoul of German and U.S. authorities. Because most of these firms do not have the financial resources or properly trained personnel to perform necessary due diligence, they have begun requesting zero-notices, effectively "outsourcing" due diligence responsibilities to BAFA. Exporters reportedly point to the need to factor in "political concerns," which they claim go beyond traditional technical and legal considerations. Exporters also cite the growing number of lists -- e.g. UN, EU, U.S., and supplier regime lists, as well as the German Government's early warning list -- as another factor that complicates due diligence.

17. (C) BAFA and Economics Ministry technical experts agree with the need for more stringent export control and counter-proliferation measures, but insist more should be done to provide clear guidance to exporters. They argue more precise guidance would also enable Customs agents, who often have technical expertise but lack the "political" experience needed to make fully informed risk assessments, to screen Iran-bound exports more effectively. The lack of clear guidance, they claim, also complicates efforts to prosecute and penalize companies that violate export control laws.

BANKS SEEK U.S. RECOGNITION OF EFFORTS

18. (C) German bankers tell us they would like U.S. officials to publicly recognize German banks' efforts to curtail business with Iran, rather than target them for further pressure. At a February conference in Dresden hosted by the Federation of German Industry (BDI), for instance, Deutsche Bank and Commerzbank, Germany's two largest, complained that their virtually complete withdrawal from Iran

had opened the field to much smaller, less scrupulous operators whose transactions would be much more difficult to track than their own. German banks cite additional due diligence requirements as a primary reason for scaling back Iran-related business or, in some cases, withdrawing entirely.

19. (C) BaFin, in cooperation with the Finance Ministry and the major German banking associations, circulated specific guidance informing banks that the October 2007 Financial Action Task Force (FATF) statement on Iran legally obligates German banks to undertake additional due diligence on all Iran-related transactions (ref B). Many smaller German banks now turn to BAFA and BaFin for guidance on Iran-related contracts and transactions. Even though the March 2008 FATF statement does not include new Iran-specific guidance, BaFin plans to circulate the text, highlighting the need for rigorous due diligence on all transactions involving the countries mentioned.

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